

WORKING CAPITAL FUND

FY 2003 First Quarter Report: Summary

I. Relation of Earnings to Expenses

- Each business is expected to achieve a balance between annual ‘earnings’ (billings to customers pursuant to Board-approved pricing policies) and ‘expenses’ (accrued contractual costs adjusted for depreciation, inventory changes, and related business-type costs). Quarterly analyses are intended primarily to identify emerging annual issues that may warrant changes in Board pricing policies.
- The Fund experienced net earnings of \$0.9 M (4%) on \$22.0 M in earnings in the first quarter of FY 2003.

WORKING CAPITAL FUND			
FY 2003 First Quarter Business Results (in Millions)			
TABLE I			
<u>Business Line</u>	First Quarter Earnings	First Quarter Business Expenses	First Quarter Net
Supplies	\$0.6	\$0.6	\$0.0
Mail	\$0.6	\$0.5	\$0.1
Copying	\$0.6	\$0.6	\$0.0
Printing/Graphics	\$0.6	\$0.5	\$0.1
Building Occupancy	\$14.6	\$14.5	\$0.1
Telephones	\$1.7	\$1.6	\$0.1
Desktop	\$0.3	\$0.3	\$0.0
Network	\$1.6	\$1.6	\$0.0
Contract Closeout	\$0.3	\$0.2	\$0.1
Payroll Processing	\$0.5	\$0.2	\$0.3
CHRIS	\$0.5	\$0.4	\$0.1
On-Line Learn. Ctr.	\$0.2	\$0.2	\$0.0
TOTAL ¹	\$22.0	\$21.1	\$0.9

- Specific differences in excess of \$50,000 are as follows:
 - The Mail Business Line had net earnings of \$134,579 in the first quarter, resulting from recent cost reductions and increased earnings as approved at the December

¹ When converting from whole dollars to tens of millions total amounts do not always add due to rounding.

Board Meeting. The business needs more operating experience under the new policies before we can predict results for the entire fiscal year.

- The Printing and Graphics Business Line reported net earnings of \$50,290 in the first quarter that are the result of cost savings in the graphics segment of the business.
- The Building Business Line had net earnings of \$71,838 in the first quarter that are the result of reduced costs in various cost elements.
- The Telephone Business Line net earnings of \$51,142 in the first quarter resulted from the revaluation of the telephone asset last fiscal year and the consequent changes to the depreciation charges. It is too early to determine the impact of this profit on future net earnings.
- The Contract Closeout Business Line had net earnings of \$134,617. This performance is consistent with past years where costs are greater in the second half of the year. The business is expected to break even for the remainder of the year.
- The Payroll Business Line had net earnings of \$316,707 in the first quarter due to savings related to the decision to forego software development pending outsourcing of payroll operations.
- The CHRIS Business Line had net earnings of \$142,500 in the first quarter due to the timing of costs related to equipment and equipment maintenance. These expenses are expected later in the fiscal year.
- Both earnings and expenses reported above have been adjusted from the DISCAS accounting to present the Fund's net earnings with the most accurate and latest information. In the case of Earnings, Mail, CHRIS, and Online Learning earnings have been adjusted down to reflect annual collections that should be reported in 25% increments each quarter. Telephone results have been adjusted to offset the reverse billing for August/September usage billed in October/November. Costs for Printing and Graphics, Building, and CHRIS have been adjusted up to account for costs that should have been recognized in the first quarter but were not accrued by the business lines.

These adjustments seem justified during interim reporting in the fiscal year, because our emphasis is on providing the Board with the most accurate reporting and estimates of annual performance. At year-end, the Fund has more time to estimate accruals, which allows business managers to analyze costs in greater detail. For that reason, we rely on DISCAS data alone for the Income Statement.

II. Relation of Customer Payments to Anticipated Customer Billings

- Obligation authority for Fund businesses is derived from customer advance payments for services. The Board has adopted procedures calling for customers to make full-year advance payments into the Fund. The length of the continuing resolution affected collections to-date in FY 2003. We expect to return to traditional levels of advance funding once appropriations are complete.
- By December, we had collected \$32.1 million (36%) of the estimated \$89.6 million in FY 2003 annual revenues (Table II). These amounts are substantially less than first quarter collections of \$69.5 million (81%) of the estimated \$86.2 million in FY 2002 annual revenues and \$66.3 million (79%) of the estimated \$84.2 million in FY 2001 annual revenues. The Fund Manager has been working with both the business lines and customer organizations to accommodate the effects of the delay in enacting full year appropriations for FY 2003.

WORKING CAPITAL FUND			
FY 2003 First Quarter Business Results (in Millions)			
TABLE II			
<u>Business Line</u>	Advances as of First Quarter ²	Anticipated Full Year	% Collected
Supplies	\$ 2.0	\$3.3	61%
Mail	\$ 0.7	\$2.6	27%
Copying	\$ 0.9	\$2.0	45%
Printing/Graphics	\$ 0.8	\$3.2	25%
Building Occupancy	\$ 15.2	\$58.0	26%
Telephones	\$ 3.6	\$6.8	53%
Desktop	\$ 0.4	\$1.2	25%
Network	\$ 2.5	\$6.2	40%
Contract Closeout	\$ 0.4	\$0.8	50%
Payroll Processing	\$ 4.1	\$3.1	132%
Chris	\$ 1.4	\$2.2	64%
On-Line Learn. Ctr.	\$ 0.3	\$0.3	100%
TOTAL	\$ 32.1	\$ 89.6	36%

² Customer advances include prior year customer advances. (see Table III).

III. Relation of Payments to Obligations by Business Line

- There have been no violations of administrative control of funds procedures by WCF business lines.
- As shown in Table III, funds available exceeded obligations by an estimated \$18.3 million by the end of the first quarter. The rate of obligation is behind annualized estimates due to the length of the continuing resolution at the beginning of FY 2003.

WORKING CAPITAL FUND					
FY 2003 First Quarter Business Results (in Millions)					
TABLE III					
<u>Business Line</u>	Unobligated Balance ³ 10/02	Current Year Customer Advances	Total available for obligation	First Quarter Obligations	Advances Remaining to be Obligated
Supplies	\$1.8	\$0.2	\$ 2.0	\$1.5	\$0.5
Mail	\$0.4	\$0.3	\$ 0.7	\$0.3	\$0.4
Copying	\$0.8	\$0.1	\$ 0.9	\$0.7	\$0.2
Printing/Graphics	\$0.5	\$0.3	\$ 0.8	\$0.4	\$0.4
Building Occupancy	\$3.6	\$11.6	\$ 15.2	\$8.9	\$6.3
Telephones	\$3.2	\$0.4	\$ 3.6	\$0.6	\$3.0
Desktop	\$0.3	\$0.1	\$ 0.4	\$0.0	\$0.4
Network	\$2.0	\$0.5	\$ 2.5	\$0.5	\$2.0
Contract Closeout	\$0.3	\$0.1	\$ 0.4	\$0.2	\$0.2
Payroll Processing	\$3.7	\$0.3	\$ 4.1	\$0.4	\$3.6
Chris	\$0.8	\$0.6	\$ 1.4	\$0.2	\$1.2
On-Line Learn. Ctr.	\$0.1	\$0.2	\$ 0.3	\$0.1	\$0.2
TOTAL	\$17.5	\$14.6	\$ 32.1	\$13.8	\$18.3

³ The unobligated balances are made up of earned and unearned customer advances from the prior fiscal year. These funds often act as working capital during the early weeks of a new fiscal year. Unearned balances of \$12.3 million represent a liability of the fund and like other unearned customer advances, are uncommitted and can be returned to the customer at their request. There are also \$0.3 million of unearned advances, which are not allocated to businesses.

IV. Changes in Budget Estimates by Business Line and Customer

- The \$2.3 million increase in the May 2002 estimate was the result of GSA rent increases (\$2.0 million) and increased demand for supplies. December 2002 estimates increase as a result of increased mail security offset by phone savings.

FY 2003 Budget Estimates for WCF Businesses		
Date	Process	FY 2003 Billing Estimate (\$Millions)
May 2001	FY 2003 Corporate Review	\$86.9
December 2001	FY 2003 Congressional Budget	\$87.1
May 2002	FY 2004 Corporate Review	\$89.4
December 2002	FY 2004 Congressional Budget	\$89.6

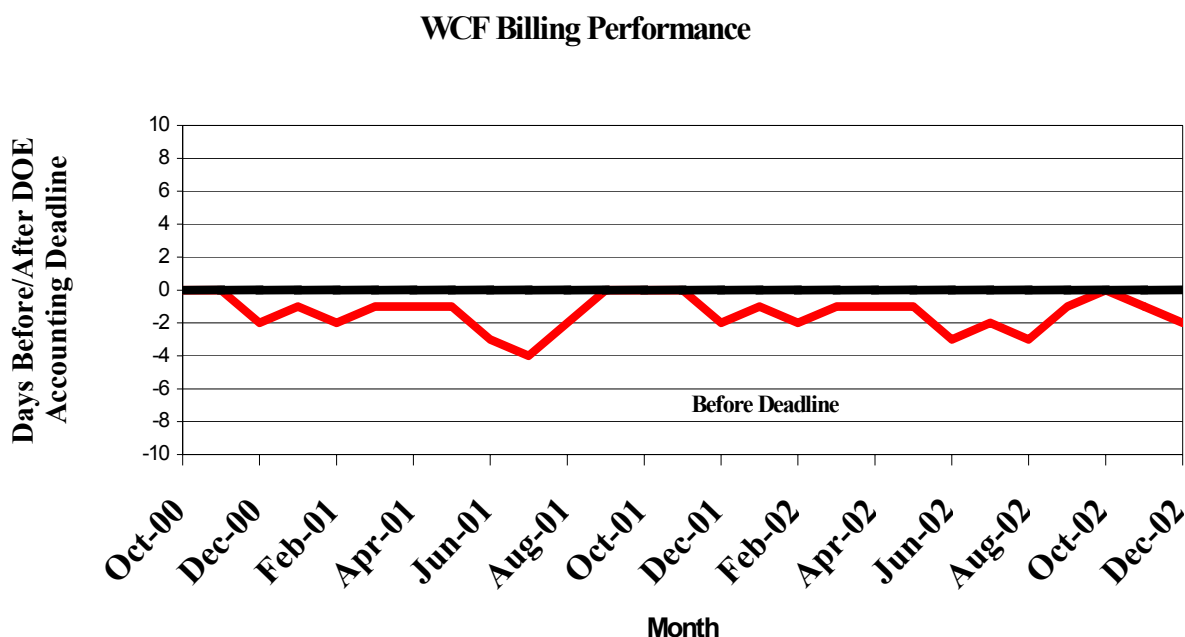
V. Anticipated Need to Change Pricing Policies or Make Substantial Changes in Operating Levels.

- The Fund Manager has organized a Financial Policy Working Group to review the financial policies of the fund including proper use of fund balances. It is possible that this group will recommend changes. Payroll outsourcing should result in cost savings that have yet to be determined, and the Board has not taken final action on the proposed FY 2004 increase in Telephone and Network infrastructure charges..

VI. Financial Management Systems Progress

Working Capital Fund Billing System

- The WCF billing system continued to successfully produce timely and accurate monthly bills. The chart below indicates the billing performance related to transferring customer-billing information to DISCAS by the fifth working day of the month. This allows the Fund staff, with the cooperation of CFO officials, to have the billings entered into DISCAS each month before the accounts are closed. A minus two (-2) indicates that billing was forwarded two days before the deadline. This standard provides customers with costs reported in DISCAS in the same month they occur. The time between the end of the month and the issuance of the bill is extremely consistent. Process improvements that would result in timesaving are no longer meaningful.
- The Fund Manager recently completed upgrading the billing system to automate and enhance customer reporting. It is our assessment that the system is stable and has the flexibility to accept changes as needed. We intend to solicit ideas from our customer and business working groups for the next generation of enhancements. The complete assessment can be located on our web site at www.ma.mbe.doe.gov/wcf under Billing System Assessment.



VII. Performance Review

- Business Lines report that they are accomplishing goals and performance objectives for FY 2003 consistent with annual projections in recent five-year plans. We have every expectation to meet performance standards at the end of FY 2003.